

MARYSVILLE SCHOOL DISTRICT No. 25
Snohomish County, Washington
September 1, 1992 Through August 31, 1993

Schedule Of Findings

1. District Officials Should Follow Bid Laws And Their Purchasing Procedures

Prior to beginning fieldwork for the current audit, district management communicated to us a potential violation of state bid law regarding purchase and installation of carpet at Liberty Elementary School. This transaction occurred during the 1993-94 fiscal year.

Upon review of this transaction we found that district officials split the project into three lots, with an estimated cost of under \$20,000 each, to avoid the requirement for soliciting formal bids when cost estimates exceed \$20,000. Informal quotes were obtained from three vendors based on a list of suppliers received from the manufacturers representative. However, the quotes were solicited to ensure the estimated cost would be less than \$20,000 excluding tax. No competitive quotes were ever obtained to compare one supplier's price with another.

In addition, the cost of carpet installation was incurred prior to approval by district officials. The total cost of carpet and installation was \$61,133.

RCW 28A.335.190 states in part:

... When, in the opinion of the board of directors of any school district, the cost of any furniture, supplies, equipment, building, improvements, or repairs, or other work or purchases, except books, will equal or exceed the sum of twenty thousand dollars, complete plans and specification for such work or purchases shall be prepared and notice by publication given in at least one newspaper of general circulation within the district

The manufacturer representative offered the district what he called "a bargain purchase price" on the carpet. District officials then circumvented the bid process to expedite installation of carpet in the school during Christmas break. When officials choose to not follow proper bid laws, there is a risk that the district may incur excessive cost.

We recommend that district officials follow bid law and their own purchasing procedures.

2. District Officials Used An Unlicensed And Unbonded Contractor For Tree Topping

From our review of an expenditure for tree topping at Marshall Elementary, we found the district used a contractor who was unlicensed with the state and unbonded in violation of the district's policies and the state law.

RCW 39.06.010 states in part:

. . . No agency of the state or any of its political subdivisions may execute a contract with any contractor who is not registered or licensed as may be required by the laws of this state

RCW 39.08.010 states in part:

Whenever any board, council, commission . . . shall contract with any person or corporation to do any work for the state . . . such board . . . shall require the person or persons with whom such contract is made to make, execute, and deliver to such board . . . a good and sufficient bond, with a surety company as surety

District officials solicited a contractor without following district purchasing policy. The purchasing department was not utilized to find a contractor for the service.

When officials do not follow their own policies and state law, there is limited recourse for substandard work. Also, there is a potential liability for medical costs and litigation due to injury to the contractor, district personnel, students or other people in the community.

We recommend that district officials follow their own purchasing policies and state law.

3. The District Should Improve Controls Over Soft Drink Sales And Inventory

Prior to beginning field work for the current audit, the district contacted us about the suspected loss of cash receipts or soft drink inventory at several schools. During interim work for this audit, we reviewed supporting documentation for cash received compared to soft drink inventory available for sale at selected schools during a two-year period from September 1, 1991, through August 31, 1993. Amounts available for sale were comprised of beginning inventory at September 1, 1991, purchases during the two-year period, less ending inventory at August 31, 1993. District management was helpful in providing original source documents and other information needed during the audit.

We determined that actual cash received fell short of expected revenue by at least the following amounts:

	<u>Retail Sales Value</u>	<u>Value at District Cost</u>
Marysville-Pilchuck High School	\$23,804	\$ 9,522
Marysville Junior High School	8,928	3,571
Cedarcrest School	<u>11,521</u>	<u>4,608</u>
	<u>\$44,253</u>	<u>\$17,701</u>

Since controls over soft drink inventory were poor, it was not possible to determine whether the shortfall represented cash stolen, soft drinks stolen or given away, undocumented transfers between Associated Student Body (ASB) activities, or miscoding of soft drink revenue on the "Revenue Transmittal." Because of this uncertainty, our calculation shown above includes not only retail value but also the district's cost of this loss, assuming the entire shortfall was inventory. The cost value is based on the number of cans unaccounted for, and a consistent cost of 20 cents per can.

Washington Administrative Code Section 392-138-045 states that:

Associated student body moneys shall be accounted for as follows:

- (1) Accounting methods and procedures shall comply with such rules and regulations and/or guidelines as are developed by the state auditor . . .

As mentioned above, controls over soft drink inventory as well as collection of cash were poor. The most pervasive weaknesses in controlling inventory were unrestricted access to the stock, and that some teachers gave soft drinks away to students. Cash was collected by one person at both the high school and Cedarcrest without accountability for what was to be deposited with the district or a second person to corroborate that all cash was deposited. Finally, management did not request periodic reconciliations of actual to expected revenue for each school.

The shortfall of expected revenue means that the ASB activities for concessions or soft drink sales did not receive all the money they were entitled to. This represents foregone revenue to these ASB activities regardless of whether inventory or cash was lost.

We recommend management improve controls over soft drink sales, including inventory and cash collections. At a minimum this would include restricting access to inventory to authorized personnel, two staff members collecting and counting cash from soft drink

machines, conducting monthly inventory counts of soft drinks on hand, and monthly reconciliations of actual versus expected cash receipts. A format for such a reconciliation was given to district management.